

Republic Act No. 85 October 29, 1946

AN ACT CREATING THE REHABILITATION FINANCE CORPORATION

CHAPTER I

ESTABLISHMENT AND FUNCTIONS

Section 1. *Purposes, name and domicile.* - To provide credit facilities for the rehabilitation and development and expansion of agriculture, and industry, the reconstruction of property damaged by war, and the broadening and diversification of the national economy, and to promote the establishment of private development banks in provinces and cities, there is hereby created a body corporate to be known as the Development Bank of the Philippines, hereinafter called Bank, which shall have its principal place of business in the Municipality of Makati, Province of Rizal, and shall exist for a period of fifty years. (As amended by Republic Act No. 2081, June 14, 1958.)

Section 2. *Corporate powers.* - The Development Bank of the Philippines shall have power:

(a) To grant loans for home building or home financing projects and for the rehabilitation, establishment or development of any agricultural and/or industrial enterprise, including public utilities, mining, livestock industry and fishing, whether offshore or inland; (As amended by Republic Act No. 2081, June 14, 1958.)

(b) To purchase preferred redeemable shares of stock, securities, other than shares of stock, and obligations of, and to grant loans to, any agricultural and industrial enterprises mentioned in paragraph (a) to finance their fixed and operating capital requirements. All purchases of preferred redeemable shares, securities and obligations and all loans shall be of such sound value or so secured, as reasonably to assure retirement of such shares, securities or obligations or repayment of the loan; and shall be granted only under such terms, conditions and restrictions as the bank shall determine; (As amended by Republic Act No. 3147, June 17, 1961.)

(c) To grant loans to provincial, city and municipal governments for the rehabilitation, construction or reconstruction of public markets, irrigation, waterworks, toll bridges, slaughterhouses, for cadastral surveys and other self-liquidating or income-producing services, or the purchase and acquisition and machineries and to agencies and corporations owned or controlled by the Government of the Republic of the Philippines for the production and distribution of electrical power, for the purchase and subdivision of rural and urban estates, for housing projects, for irrigation and waterworks system, and for other essential industrial and agricultural enterprises; (As amended by Republic Act Nos. 2081 and 3157.)

(d) To grant loans to cooperative associations to facilitate production, the marketing of crops, and the acquisition of essential commodities;

(e) To grant loans to individual employees in a government-owned or controlled corporation or private corporation engaged in the development and/or expansion of agriculture or industry, for the purpose of buying shares of stock directly from such corporation for the purpose of enabling them to participate in the ownership and to share in the profits thereof; Provided, That the yearly amortization

of such loans shall not exceed ten percent of the total annual salary and wages of the borrower: Provided, further, That such loans shall be payable in full within a period no exceeding ten years: Provided, finally, That if the borrower should sell any share of stock acquired by him from the proceeds of such loans, the corporation that issued said share of stock shall have preference to purchase the same; (As amended by Republic Act No. 3147.)

(f) To underwrite, purchase, own, sell, mortgage or otherwise dispose of stocks, bonds, debentures, securities and other evidences of indebtedness issued for or in connection with any project or enterprise referred to in the preceding paragraphs;

(g) To issue bonds, debentures, securities, collaterals, and other obligations and/or renewal or the refunding of the same upon the recommendation of the Secretary of Finance and with the approval of the President, but in no case to exceed at any one time an aggregate amount equivalent to ten times of its paid-in capital and surplus. These bonds and other obligations shall be redeemable at the option of the Bank at or before maturity and in such manner as may be stipulated therein and shall bear such rate of interest as may be fixed by the Bank. Such obligations shall be secured by the assets of the Bank, including the stocks, bonds, debentures and other securities underwritten, purchased or held by it under the provisions of this Act. The Bank shall provide for appropriate reserves for the redemption or retirement of said obligations. Such obligations may be issued and offered for sale at such price or prices as the Bank may determine, and shall be exempt from taxation both as to principal and interest. The said obligations shall be and are hereby fully and unconditionally guaranteed both as to principal and interest by the Government of the Republic of the Philippines and such guaranty shall be expressed on the face thereof.

In the event that the Bank shall be unable to pay debentures, bonds, collaterals, notes or other such obligations issued by it, the Secretary of Finance shall pay the amount thereof, which is hereby appropriated out of any moneys in the National Treasury not otherwise appropriated, and thereupon, to the extent of the amounts so paid, the Government of the Republic of the Philippines shall succeed to all the rights of the holders of such bonds, notes, debentures, collaterals, or other obligations.

Subject to the above provisions, the Bank is also authorized to issue "Rehabilitation and development bonds" in denominations of not less than fifty pesos nor more than one thousand pesos redeemable by the Bank on demand at the option of the holder of said bonds, which may be of the following types: (1) rehabilitation and development bonds at progressive staggered interest with cumulative face value; and (2) rehabilitation and development bonds bearing interests as may be determined by the Board of Governors with the advise and consent of the Secretary of Finance and upon approval by the Monetary Board, said interest to become due and payable semi-annually and payment thereof to be annotated on the back of each bond certificate. Maturity of both types of bonds shall be fixed by the Board of Governors but in no case to exceed ten years.

The Board of Governors shall have the power to prescribe rules and regulations for the issuance, reissuance, servicing placement and redemption of the bonds herein authorized to be issued by the Bank as well as the registration of such bonds at the request of the holders thereof, with the approval of the Monetary Board of the Philippines.

(h) To adopt, alter, and use a corporate seal which shall be judicially noticed; to make contracts; to borrow money; to issue or own real and personal property, and to sell, mortgage or otherwise dispose of the same; to sue and be sued; to employ such officers and personnel as may be necessary to carry out the business of the bank; and otherwise to do and perform any and all things that may be necessary or proper to carry out the purposes of the Bank. (As amended by Republic Act

No. 2081.)

(i) To subscribe out of its funds to the capital stock of private provincial and city development banks created pursuant to the provisions of this Act: Provided, That the aggregate of such subscriptions shall not exceed twenty-five million pesos; (Added by Republic Act No. 2081.)

(j) To rediscount intermediate and long term notes, loans and/or mortgages of the Philippine National Bank; and (As amended by Republic Act No. 3147.)

(k) The provision of any law to the contrary notwithstanding, to guarantee acceptance credits, loans, transactions, or obligations of any person, co-partnership, association or corporation in favor of any financing or banking institution, whether foreign or domestic: Provided, That the proceeds of such acceptance credits, loans, transactions or obligations have been utilized or are earmarked for the development and/or expansion of agriculture or industry. (Inserted by Republic Act No. 3147.)

(l) The provision of any law to the contrary notwithstanding, the total liabilities of any person, company, corporation or firm, or political subdivision of the Government, with the exception of money borrowed against obligations of the Central Bank or of the Philippine Government or borrowed with the full guarantee by the Government of payment of principal and interest, shall, exclusive of guarantees under paragraph (k), of Section 2 hereof, at no time exceed thirty per cent (30%) of the paid-in capital and surplus of the bank. (Inserted by Republic Act No. 3517, June 14, 1963.)

Section 3. *Capital stock.* - The capital stock of the Bank shall be three billion pesos divided into three million shares having a par value of one thousand pesos each. The said capital stock shall be fully subscribed by the Government of the Republic of the Philippines, and payment of the said subscription shall be as follows:

At least fifty per centum (50%) of the surplus account of the Bank as of June 30, 1962 and at least twenty per centum (20%) of the net profits that may hereafter be realized as well as the profits that may be assigned as dividends to the shares of the Government shall be automatically applied to the payment of the subscribed capital stock of the government until the said capital stock shall have been fully paid for, in which case the said profit shall be utilized for such purposes as may be authorized by the Board of Governors. (As amended by Presidential Decree No. 195, May 19, 1973.)

The provisions of Section three of Republic Act Numbered Seventeen hundred eighty-nine to the contrary notwithstanding, an amount equivalent to fifty per cent of the proceeds from the sale of reparations goods and services for fifteen years following the approval of this Act, is hereby appropriated to cover the payment of the unpaid subscription of the government to the capital stock of the Bank: Provided, That seventy-five million pesos of such amount shall be set aside as a trust fund for the purpose of aiding the establishment of private provincial and city development banks as provided in this Act.

Section 4. *Loans.* - The Bank may grant loans against security of real estate and/or other acceptable assets including, subject to the provision of existing laws, leasehold rights and permits from the government: Provided, That not more than forty-five per cent of its authorized capital stock shall be available for industrial loans, not more than thirty-five per cent of such capital stock shall be available for agricultural loans and not more than twenty per cent of such capital stock shall be available for miscellaneous loans including loans for home building or home financing projects: Provided, further, That the same proportion hereinabove stated shall be observed in the granting of loans for industrial,

agricultural and miscellaneous purpose: Provided, further, That of the amount available for agricultural loans, not more than twenty per cent thereof shall be made available for any agricultural crop and that of the latter amount not more than five per cent thereof shall be loaned to any individual, association or corporation: Provided, further, That no person shall be granted a loan for home building in excess of thirty thousand pesos: Provided, further, That when the interest of the national economy so requires and upon approval of the President of the Philippines for a specified and limited period, the proportions hereinabove stated need not be observed in the granting of loans; Provided, further, That any provision of law to the contrary notwithstanding the Bank is authorized to grant loans on the security of real estate without torrens title if the said real estate has been declared for purposes of taxation continuously for at least ten years and the applicant for loan and his predecessors in interest have been in continuous and uninterrupted possession thereof in the concept of owner for at least ten years, such possession to be established by affidavits of the owners of all the properties adjoining such real estate and other evidences that the Board of Governors may deem necessary: Provided, finally, That the bank may invest funds for the purchase of such mortgage bonds as the Philippine National Bank shall issue for the grant of medium and long term development loans, which bonds must be guaranteed by the government both as to principal and interest.

Section 5. The provision of any law to the contrary notwithstanding, twenty-five per cent of the investible funds of the Government Service Insurance System and the Social Security System accumulating monthly shall be invested by the said systems in bonds issued by the Bank. (Inserted by Republic Act No. 2081.)

Section 6. The establishment of private development banks in provinces and cities shall be encouraged and shall be given preference and assistance by the government as herein below provided. (Inserted by Republic Act No. 2081.)

Section 7. There shall be three classes or categories of private development banks, namely: class A, class B, and class C. (Inserted by Republic Act No. 2081.)

Class A private development banks shall have a paid-up capital of at least four million pesos; class B shall have a paid-up capital of at least two million pesos; and Class C shall have a paid-up capital of at least one million pesos. (Inserted by Republic Act No. 2081.)

Section 8. A private development bank shall be incorporated under the provisions of the General Banking Act for mortgage banks and shall exercise all the powers and shall assume all the obligations of a mortgage bank as defined in the said Act, except as otherwise provided herein: Provided, That no private development bank shall be operated without a certificate of authority from the monetary board of the Central Bank which shall be issued upon compliance with the provisions of this law.

Any existing domestic bank may be converted into a private development bank in the province or city in which it is located: Provided, That it complies with the requirements prescribed in this Act: Provided, further, That at least sixty per cent of its capital stock is owned by citizens of the Philippines. (Inserted by Republic Act No. 2081.)

Section 9. A private development bank shall be organized in the form of a stock corporation and its paid-up capital stock shall not be less than four million pesos for class A, two million pesos for class B, and one million pesos for class C: Provided, That at least sixty per cent of the capital stock subscribed by the private sector shall be owned and held by citizens of the Philippines: Provided,

further, That if said subscription of private shareholders to the capital stock of a private development bank cannot be secured or is not available, the Bank on representation of the said private shareholders and with the approval of its Board of Governors shall, with thirty days from date of said approval by the Board of Governors, subscribe to the capital stock of such development banks, which shall be paid in full at the time of subscription out of the trust fund hereinabove mentioned, in an amount equal to the full paid subscribed capital of the private stockholders: Provided, further, That the Board of Governors shall act on the representation made by the private shareholders within thirty days from the date it is filled: Provided, further, That such shares of stock subscribed by the bank shall be preferred shares entitled to cumulative dividends at a rate of one per cent during the first five years, two per cent during the following five years, and three per cent thereafter, shall be preferred as against common and other preferred stockholders in the distribution of assets in the event of liquidation, and shall be entitled to voting privileges: Provided, finally, That such preferred shares of the bank may be sold at any time at par to private individuals who are citizens of the Philippines, and in the sale thereof the qualified registered stockholders shall have the right of preemption within one year from the date of offer in proportion to their respective holdings, but in the absence of such buyers, preference shall be given to residents of the province or city where the development bank is located. All members of the board of directors of the private development banks shall be citizens of the Philippines. (Inserted by Republic Act No. 2081.)

Section 10. Private development banks organized under this Act shall be known by the name of the province or city it is to operate followed by the words "Development Bank." Should there be in a province or city more than one such private development bank, the name of the banks organized subsequently shall be preceded by the word second or third and so on following the order of their authorization.

In the implementation of the provisions of this Act, the Central Bank and the bank shall see to it that, before a second or subsequent private development bank is organized in a particular province or city, ample provision be made to provide for capital assistance in the organization of private development banks in other provinces and cities still without such banks. (Inserted by Republic Act No. 2081.)

Section 11. The Central Bank shall advance, within thirty days from the date of the organization and authorization of the first provincial or city private development bank, sums of money not to exceed at any one time ten million pesos for the trust fund payment of the same to be guaranteed by the reparations payments prescribed above.

The loanable funds of the private development bank shall be invested in medium and long-term loans for economic development purpose and in no case shall the bank invest more than twenty-five per cent of such loanable funds in short-term loans. (Inserted by Republic Act No. 2081.)

Section 12. The trust fund shall be used by the Bank in assisting private development banks as follows:

(a) To pay for its subscription to preferred shares of stock in said private development banks in the manner and subject to the terms and conditions prescribed in Section nine hereof;

(b) To rediscount promissory notes and other credit instruments held by the private development bank under the following conditions and limitations:

(1) It charges such rediscount or interest rates as it may determine taking into account that the main objective of the private development banks is to engage in medium and long-term loans for economic development. The determination of such rediscount or interest rates acceptable to the bank for purposes of this provision shall be made by the said bank upon or immediately after the commencement of operations of a private development bank;

(2) Funds so acquired shall be used only to finance the establishment and operation of projects within the development program of the National Economic Council or along such projects and activities as the National Economic Council may, from time to time, approve. (Inserted by Republic Act No. 2081.)

Section 13. The provisions of Republic Act Numbered Three hundred and thirty-seven, insofar as they are applicable and not in conflict with any provision of this Act, are hereby made applicable to private development banks. (Inserted by Republic Act No. 2081.)

CHAPTER II

OFFICERS AND EMPLOYEES

Section 14. *Board of Governors.* - The affairs and business of the Corporation shall be directed, its powers exercised, and its property managed and preserved by a Board of Governors consisting of the Chairman and six other members to be appointed by the President of the Philippines with the consent of the Commission on Appointments. The Chairman and three other members of the Board to be designated by the President shall render full time service to the Corporation. The term of office of the Chairman and other members of the Board shall be seven years, except that of the first members which shall be one, two, three, four, five, six, and seven years and which shall be specified in their respective appointments. The compensation of the Chairman and other members of the Board of Governors shall be fixed by the President of the Philippines, who may remove any of them for cause.

The President may designate as Vice-Chairman one of the eight members of the Board who shall preside the meetings of the Board in the absence or temporary incapacity of the Chairman.

No person shall be appointed Chairman or member of the Board of Governors unless he be of good moral character and unquestionable integrity and be of recognized competence in economics, agriculture, industry, finance and/or banking. (Originally Section 4, renumbered by Republic Act No. 2081.)

Section 15. *Duties and powers of the Board.* - The Board of Governors shall have the following powers:

(a) To prescribe, amend and repeal, with the approval of the President of the Philippines, by-laws, rules and regulations governing the manner in which the general business of the Corporation may be conducted and the powers granted by law to the Corporation may be exercised, including a provision for the formation of such committee or committees as the Board of Governors may deem necessary to facilitate its business;

(b) To fix the rates of interest on loans in accordance with the different classes of transaction and securities provided in this Act;

(c) To establish such branches and agencies as may be deemed necessary and convenient;

(d) To provide for the appointment and removal and to fix reasonable compensation of such personnel as may be necessary for the expeditious conduct of the business of the Corporation. (Originally Section 5, renumbered by Republic Act No. 2081.)

Section 16. *The Chairman.* - The Chairman of the Board shall be the chief executive officer of the Corporation. He shall, on behalf of the Board, have the direction and control of the business of the Corporation in all matters which are not by this Act or by the by-laws of the Corporation specifically reserved to be done by the Board of Governors or other officers of the Corporation. (Originally Section 6, renumbered by Republic Act No. 2081.)

Section 17. *Legal counsel.* - The Secretary of Justice shall be ex officio the legal adviser of the Corporation. He shall appoint a representative, who shall be the legal counsel of the Corporation. The assistant and personnel of the legal counsel shall also be appointed by the Secretary of Justice. The operating expenses of the office of the legal counsel and the salaries and traveling expenses of the officers and employees thereof shall be fixed by the Board of Governors and paid by the Corporation. (Originally Section 7, renumbered by Republic Act No. 2081.)

Section 18. *The Auditor.* - The Auditor General shall be ex officio auditor of the Corporation and shall appoint a representative, who shall be the auditor in charge of the auditing office of the Corporation. The Auditor General shall upon the recommendation of the auditor of the Corporation, appoint or remove the personnel of the auditing office. The operating expenses of the auditing office and the salaries and traveling expenses of the officers and employees thereof shall be fixed by the Board of Governors and paid by the Corporation. The representative of the Auditor General shall make a quarterly report on the condition of the Corporation to the President of the Philippines, to the Senate through its President and the House of Representatives through its Speaker, to the Secretary of Finance, to the Auditor General and to the Board of Governors of the Corporation. The report shall contain, among other things, a statement of the resources and liabilities including earnings and expenses, the amount of capital stock, surplus, reserve and profits, as well as the losses, bad debts, and suspended and overdue paper carried in the books as assets of the Corporation, and plantilla of the Corporation. (Originally Section 8, renumbered by Republic Act No. 2081.)

Section 19. *Transfer of functions, assets and liabilities of the Agricultural and Industrial Bank.* - All the powers vested in and the duties conferred upon the Agricultural and Industrial Bank by Commonwealth Act No. 459, as amended, the funds and properties heretofore placed under the administration of the said Agricultural and Industrial Bank by said Act, and all its capital, assets, accounts, contracts, and choses in action, are transferred to the Rehabilitation Finance Corporation, which shall exercise said powers and duties in accordance with the provisions of said Act, except as herein otherwise provided, and shall administer, dispose of, handle and execute said funds, properties, capital, assets, accounts, contracts, or agreements and choses in action in the manner the Corporation may determine in the interest of the funds concerned, and the Corporation shall assume all the liabilities of the Agricultural and Industrial Bank as such or as trustee, as the case may be. The total amount of the unimpaired capital of the Agricultural and Industrial Bank shall be credited to the subscription of the Government of the Republic of the Philippines to the capital stock of the Corporation. The Agricultural and Industrial Bank shall stand abolished on the date when the Corporation shall begin its operations. (Originally Section 9, renumbered by Republic Act No. 2081.)

CHAPTER III

MISCELLANEOUS PROVISIONS

Section 20. *Rehabilitation funds for Domestic Banks and Insurance Companies.* - All authority, control and administration of the rehabilitation funds provided in Commonwealth Act Numbered Seven hundred twenty-six and in Executive Order No. 107 dated April 20, 1946, as amended, are hereby transferred to the Rehabilitation Finance Corporation, which shall hereafter be the owner of and have the sole power of disposition and control over said funds. Such disposition and control shall be in accordance with the provisions of said Act and Executive Order until the purposes thereof shall have been accomplished. All stock heretofore issued to the Government in exchange for contributions or subscriptions made out of said funds shall be transferred to and issued in the name of the Corporation, and the total amount of said funds shall be credited to the subscription of the Government of the Republic of the Philippines to the capital stock of the Corporation. The powers and functions heretofore conferred upon the Financial Rehabilitation Board shall be assumed and exercised by the Board of Governors of the Corporation. (Originally Section 10, renumbered by Republic Act No. 2081.)

Section 21. *Obligations of the Corporation.* - Obligations of the Corporation shall be lawful investments, and may be accepted as security of all fiduciary, insurance, trust, and public funds the investment or deposit of which are under the authority, control or supervision of the Government or any of its officer or officers. (Originally Section 11, renumbered by Republic Act No. 2081.)

Section 22. *Prohibitions and penalties.* - No member of the Board of Governors, officer, attorney, agent, or employee of the Corporation shall in any manner, directly or indirectly, participate in the deliberation upon or the determination of any question affecting his personal interests, or the interests of any corporation, partnership, or association in which he is directly or indirectly interested. Any person violating the provisions of this Section shall be summarily removed from office and shall upon conviction be punished with a fine not to exceed ten thousand pesos and with imprisonment not to exceed five years. (Originally Section 12, renumbered by Republic Act No. 2081.)

Section 23. No officer or employee of the bank nor any government official who may exercise executive or supervisory authority over the said bank, either directly or indirectly, for himself or as the representative or agent of others, shall, except when the same shall be in the form of advances appropriated or set aside by the bank itself in order to provide for housing for the benefit of its officials and employees, borrow money from the bank, nor shall he become a guarantor, endorser, or surety for loans from the bank to others, or in any manner be an obligor for moneys borrowed from the said bank. Any such officer or employee who violates the provisions of this Section shall be immediately removed by competent authority and said officer or employee shall be punished by imprisonment not less than one year nor exceeding five years and by a fine of not less than one thousand nor more than five thousand pesos. (Originally Section 13, renumbered by Republic Act No. 2081.)

Section 24. No loan shall be granted by the Corporation to a corporation, partnership, or company wherein any member of its Board of Governors is a shareholder, agent or employee in any capacity, except by the unanimous vote of the members of the Board of Governors, excluding the member interested, and with the approval of the President. Any member of the Board of Governors who violates the provisions of this Section shall immediately be removed by the President of the Philippines and he shall, furthermore, be punished as provided in the next preceding section. (Originally Section 14, renumbered by Republic Act No. 2081.)

Section 25. No fee, commission, gift, or charge of any kind shall be exacted, demanded, or paid, for obtaining loans from the Corporation, and any officer, employee, or agent of the Corporation

exacting, demanding, or receiving any fee for service in obtaining a loan, shall be punished by a fine of not less than one thousand nor more than three thousand pesos and imprisonment for not less than one year nor more than three years. (Originally Section 15, renumbered by Republic Act No. 2081.)

Section 26. Any person who, for the purpose of obtaining, renewing, or increasing a loan or the extension of the period thereof in his own or another's behalf, should give any false information or cause, through his intrigue or machination, the existence and production of any false information with regard to the identity, situation, productivity, or value of the security, or with regard to a point which would affect the granting or denial of the loan, whether the latter has been consummated or not, and every officer or employee of the Corporation who, through connivance or negligence, should allow by action or omission such false information to pass unnoticed, thereby causing damage to the Corporation or exposing the latter to the danger of suffering such damage, shall be punished with imprisonment for not less than three months nor more than three years, and a fine of not less than the amount of the loan obtained or applied for, nor more than three times such amount. (Originally Section 16, renumbered by Republic Act No. 2081.)

Section 27. Any officer or employee of the Corporation who violates, or permits any of the officers, agents, or servants of said Corporation or any other person to violate any of the provisions of this Act not specifically punished in the preceding sections, and any person violating any provision of this Act or aiding and abetting the violation thereof, shall be punished with a fine not to exceed ten thousand pesos and with imprisonment not to exceed five years. (Originally Section 17, renumbered by Republic Act No. 2081.)

Section 28. Whenever the phrase "Rehabilitation Finance Corporation" and the word 'corporation' appear in Republic Act Numbered Eighty-five or in any other Act or Executive Order, the same shall mean and refer to the 'Development Bank of the Philippines' and the 'Bank', respectively.

Upon the approval of this Act, all the assets and liabilities as well as the personnel of the Rehabilitation Finance Corporation are hereby transferred to the Bank. (Inserted by Republic Act No. 2081.)

Section 29. Nothing in this Act shall authorize the Bank to layoff or separate from the service any official or employee of the Rehabilitation Finance Corporation by reason of the approval of this Act. (Inserted by Republic Act No. 2081.)

Section 30. In the event that any provision of this Act or the applicability of such provision to any person or circumstance is declared invalid, the remainder of the Act or the application of said provision to other persons or circumstances shall not be affected by such declaration. (Inserted by Republic Act No. 2081.)

Section 31. This Act shall take effect upon its approval.

Approved: October 29, 1946